



BEFORE THE ARIZONA CORPORATIO.

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COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. E-01933A-12-0291

ENERNOC, INC.'S POST-HEARING INITIAL BRIEF

Pursuant to Administrative Law Judge Jane L. Rodda's oral directive during the March 4, 2013 Pre-Hearing Conference in the above-captioned and above-docketed proceeding ("Instant Proceeding"), EnerNOC, Inc. ("EnerNOC") hereby submits its Post-Hearing Initial Brief in the Instant Proceeding.

I. DESCRIPTION OF ENERNOC AND ITS INTEREST IN INSTANT PROCEEDING

A. <u>Description of EnerNOC</u>

EnerNOC provides energy management solutions to commercial, industrial and institutional customers. Energy management solutions include demand response ("DR") and a suite of Energy Efficiency ("EE") services, which provide continuous savings through software and services. EnerNOC has approximately 8,500 MW of dispatchable DR available to provide peak capacity reductions either through contractual relationships with utilities or through participation in organized wholesale markets in North America, the United Kingdom, Australia and New Zealand. EnerNOC has a contractual relationship with Tucson Electric Power Company ("TEP" or "Company") to provide DR services through TEP's Commercial Direct

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Load Control ("DLC") Program. In that regard, EnerNOC is an "implementation contractor" ("IC") to TEP.

More specifically, EnerNOC has a four-year contract with TEP to provide commercial and industrial load curtailment services pursuant to TEP's DLC Program. EnerNOC provides TEP with firm capacity curtailment services from TEP's commercial and industrial customers. In turn, TEP pays EnerNOC for load reductions and EnerNOC pays the customers to curtail their demand as directed. In that regard, EnerNOC provides the customers with equipment that communicates real-time energy usage information to EnerNOC's network operations center (NOC), the customer and TEP. EnerNOC also provides the customers with a site analysis and a detailed energy curtailment plan. The maximum capacity of the contract with TEP is 40 megawatts (MW). The capacity can be dispatched by TEP up to 80 hours per year.

В. **Description of DLC Program and Benefits**

The DLC Program provides several benefits to TEP and its customers, participants and non-participants alike. First, the DLC Program gives TEP the ability to call upon the program when its demand is approaching peak conditions. Second, the DLC Program gives TEP the flexibility to call upon its demand resources as an alternative to procuring incremental supplies in the wholesale market or to avoid dispatching a less efficient generator. Third, the DLC Program can also be used to provide support when unexpected transmission or generation outages occur to provide system reliability support.

By dispatching the DLC Program, TEP's participating customers reduce their demand and thereby (i) reduce stress or congestion on the company's distribution or transmission system, (ii) obviate the need for higher-priced capacity or energy resources, and (iii) contribute to the company's reserve margin for planning purposes. In that regard, the DLC Program is distributed across TEP's service territory. It doesn't require green field or brown field development permits or approvals or any new infrastructure investment.

Under the DLC Program, EnerNOC provides participating customers with all of the equipment necessary to participate at no charge to the customer. In addition, EnerNOC does an

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analysis of the customer's premise and delivers a detailed curtailment execution plan to the Customers also receive real-time access to their energy usage data on a five-minute customer. interval basis through a web-based portal. The data access helps the customer to gain insight into their energy consumption patterns and the data analytics identify ways in which the customer can better manage their energy usage and demand. Participation in the DLC Program allows customers to control a portion of their energy costs and receive a payment for that modified behavior. In addition, when customers reduce demand as requested by TEP, the act of reducing demand provides benefits to the reliability and cost of operating the electrical system, which benefits all customers.

Further, EnerNOC insulates customers from any penalties for failure to perform. If customers fail to perform during program events, EnerNOC does not penalize the customer for that failure. However, EnerNOC is subject to penalties for performance as part of its contract obligations. EnerNOC manages the performance risk associated with its contract obligations through its portfolio design. In that way, EnerNOC can protect the individual customer from penalties by managing the performance of the entire portfolio. Customers who reduce their electricity demand when directed to do so, receive a payment for those reductions. Customers, who do not perform, do not receive a payment, but they do not incur a penalty either. Therefore, participation in the DLC Program is a no-cost, no-risk opportunity for the customer. In the difficult economic climate for businesses today, customers need any edge they can get to reduce operating expenses and improve the bottom line. The DLC Program is one way for customers to reduce their overall energy costs and provide a benefit to the system.

C. Adverse Impacts from Suspension of DLC Program Funding

However, the aforesaid benefits of the DLC Program have not been fully realized since TEP suspended funding of its EE programs, including the DLC Program, in March 2012. TEP's reasons for doing so have been addressed by TEP's witnesses in the Instant Proceeding. They include (i) TEP's inability to obtain a final decision on TEP's proposed 2011 Energy Efficiency Implementation, which was filed in January 2011, (ii) a concern as to whether the Commission

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could lawfully authorize a change in TEP's EE Program Performance Incentive within the context of an EE implementation plan proceeding, as opposed to a general rate case proceeding, and (iii) TEP's inability to file a general rate case application prior to July, 2012, as a consequence of a "stay out" provision in the Settlement agreement approved by the Commission in TEP's 2008 rate case.

As a result of the events just described, EnerNOC has lost the opportunity to realize the full value of its contract, due to the suspension of enrollment in 2012 continuing into 2013. In addition, the suspension has created an environment of uncertainty as to the degree of regulatory support for the Commission's Energy Efficiency Standard ("EES"). It has halted the investment of companies like EnerNOC in the Arizona market. It has also created uncertainty in the customer community as to whether they can count on the programs for the future. EE program implementation relies upon customer willingness to modify their electricity consumption behavior by retrofitting or replacing inefficient equipment, and changing behavior in response to pricing or incentives. But, it requires customers to make a commitment to do something differently than they were doing before. If programs are going to start and stop or come and go, customers won't make those behavioral changes because there isn't a perceived commensurate regulatory commitment to the continuation of the program.

Customers embrace EE for many different reasons. It may be social responsibility. It may be simple economics. The less the customer has to spend on electricity, the more it can put into its primary business and its employees. Whatever the reason(s), the benefits include those enumerated above. Without EE, there is only one direction for the cost of providing service to go: up. It will go up because more resources will need to be acquired to accommodate growing demand.

During public comment at the hearing in Tucson in July 2012 in Docket No. E-0933A-11-0055 and the public comment session on March 4, 2013 in the Instant Proceeding, many consumers and local contractors expressed their support for the continuation of the EE programs, even if it meant an increase in their rates. Many customers told tales of investing in EE and DG

measures that resulted in zero electricity costs. Many contractors told stories of the formation and/or rise of their businesses when they become EE contractors, and the subsequent loss of business when the funding evaporated. It was very clear that the interruption in funding had had an adverse effect on local jobs in the Tucson metropolitan area.

In that regard, as an IC, EnerNOC has made a significant investment in developing the business relationship with TEP and its customers. EnerNOC's ability to fulfill its contract with TEP has been significantly reduced, including reduced revenues to EnerNOC relative to its investment. EnerNOC's four-year contract for 40 MW expires in 2014 and, because of the suspension in EE program funding, EnerNOC has only been able to enroll about 1/3 of its total contract commitment to date.

Thus, as discussed above, EnerNOC has a direct and substantial interest in TEP having a stable and predictable funding mechanism for its EE programs, which, in turn, translate into stable EE programs and stable regulatory support.

DISCUSSION OF SPECIFIC MANNER IN WHICH SETTLEMENT AGREEMENT SATISFACTORILY ADDRESSES ENERNOC'S INTEREST, AND THUS WARRANTS ENERNOC'S SUPPORT

A. EnerNOC's Pre-Settlement Position

On December 21, 2012 EnerNOC filed the prepared Direct Testimony of Mona Tierney-Lloyd, Director of Western Regulatory Affairs for EnerNOC. In that capacity, she is responsible for representing EnerNOC's interests before utility regulatory agencies in California, Arizona and New Mexico. Those interests include (i) protecting the value of existing contracts from changes in the regulatory environment, (ii) advocating for the approval of contracts by regulatory agencies, (iii) advocating for expanded opportunities for third-party administered programs for energy efficiency and demand response and (iv) for the incorporation of energy efficiency and demand response into resource planning proceedings. In that regard, the circumstances occasioning TEP's suspension of EE program funding in March, 2012 and the resultant impact

upon EnerNOC are an excellent example of item (i) above.

In her December 21, 2012 prepared Direct Testimony, Ms. Tierney-Lloyd discussed why EnerNOC supported the Energy Efficiency Resource Plan ("EERP #1") that TEP had proposed as a part of its July 2, 2012 Application, and which was discussed in the accompanying prepared Direct Testimony of TEP witnesses David G. Hutchens and Craig Jones. The following excerpt from Ms. Tierney-Lloyd's prepared Direct Testimony succinctly describes why EnerNOC was supporting TEP's then proposed EERP #1, as well as TEP's then proposed Lost Fixed Cost Recovery ("LFCR") mechanism as the same relates to EE as a concept and EE program implementation:

"Q.11 Why does EnerNOC support TEP's LFCR and EE Resource Plan Proposals?

A.11 As a general proposition, it is paramount to the continuance of an Energy Efficiency Standard (EES) that the barriers to utility acceptance be addressed. In that regard, TEP's compliance with the EES absent a decoupling mechanism would result in revenue erosion and the potential for TEP to be unable to make a contribution toward fixed cost recovery because TEP would be selling fewer units of electricity. If TEP's costs do not reduce commensurately with its revenue, it will have erosion of its ability to earn a reasonable return on its investments. Generally, commissions recognize that energy efficiency policies have this affect of eroding revenue and that such erosion can be an obstacle to utility acceptance, even if there are sizeable benefits to consumers and society at large. It is important to have the support and commitment of the utility, which means removing economic barriers, for the success, continuity and longevity of EE Programs.

If utilities face lost revenues, reductions in earnings and the inability to earn a fair rate of return, utilities could oppose or less actively implement such measures as being counter to the fiduciary responsibility of managing a utility company. Thus, ignoring revenue erosion issues puts the goals of the EES at risk; and, TEP's LFCR proposal appears to represent a reasonable approach for mitigating that risk.

With specific reference to TEP, the LFCR and EE Resource Plan Proposals provide revenue, rate and program stability to TEP, its customers and its ICs. In order for programs to be successful, the commitment and support must continue from the policy development, to implementation, including cost recovery and revenue protection. TEP already has demonstrated a commitment to complying with the ACC's regulatory mandates, including the EES. TEP should have a reasonable assurance of recovery of its reasonably incurred costs and an opportunity

LAWRENCE V. ROBERTSON, JR.

ATTORNEY AT LAW P. O. Box 1448

B. <u>EnerNOC's Post-Settlement Position</u> Subsequent to its December 21, 2012 filing of the aforementioned prepared Direct Testimony of Mona Tierney-Lloyd, EnerNOC participated in the settlement negotiations which took place in the Instant Proceeding in the latter half of January and the first few days in February of this year. EnerNOC also participated in the drafting of the Settlement Agreement which resulted from those negotiations, and Ms. Tierney-Lloyd executed the Settlement Agreement on behalf of EnerNOC on February 4, 2013.

Thereafter, on February 15, 2013, EnerNOC filed the prepared Direct Testimony In Support of Settlement Agreement of Mona Tierney-Lloyd. The following excerpts from that testimony discuss why EnerNOC supports the form of Energy Efficiency Resource Plan ("EERP #2") provided for in Article VII of the Settlement Agreement, which is the form of plan proposed by the Commission Staff in the Instant Proceeding, and which differs in both concept and content from EERP #1. In addition, Ms. Tierney-Lloyd also discusses how she believes that EERP #2 contemplates and provides for ongoing Commission regulatory oversight as to the appropriateness and cost effectiveness of EE programs that would be a part of EERP #2 for TEP.

Q.6 Why does EnerNOC specifically support the provisions of Article VII, and the EERP?

- A.6 EnerNOC supports the Settlement Agreement with respect to the EERP for the following reasons:
 - 1. It adopts adequate annual funding for Commission-approved and effective EE programs;
 - 2. It treats EE investments and cost recovery on a basis comparable to other supply-side resources;
 - 3. It dampens rate impacts for consumers;
 - 4. It provides a funding mechanism for EE programs, implementation contractors and customers;
 - 5. It removes some of the economic disincentives to TEP engaging in EE programs by providing for a return on its investments and a reasonable period of time over which to recover its costs and return.

Q.7 EnerNOC supported TEP's EERP as contained in TEP's July 2, 2012 original filing in this docket. Why is EnerNOC supporting the

¹ See Exhibit EnerNOC-1 at page 6, line 13-page 7, line 10.

LAWRENCE V. ROBERTSON, JR. ATTORNEY AT LAW

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Settlement Agreement, Article VII, and the now revised EERP?

A.7 EnerNOC supported TEP's previous EERP for various reasons. At page 3, lines 5-15 of my December 21, 2012 prepared Direct Testimony, I discussed EnerNOC's existing four-year contract with TEP to provide commercial load curtailment services pursuant to TEP's Commercial Direct Load Control Program ("DLC Program"). At page 3, line 17-page 4, line 26 of that testimony, I described the benefits of the DLC Program to both TEP and its customers. At page 9, line 17-page 11, line 4 of that testimony, I discussed (i) TEP suspension of funding of the DLC Program in the Spring of 2012, (ii) the impact of that suspension on EnerNOC and its contract with TEP, (iii) the implications of TEP's suspension of funding at that time for all of its EE programs upon all concerned and impacted by such action, and (iv) the importance for TEP to have stability in the funding mechanisms that translates into stable EE programs and stable regulatory support. While EnerNOC supported TEP's proposal in its Rate Case Application, in the spirit of negotiating and supporting a comprehensive settlement of all issues contained in the case, Article VII of the Settlement Agreement addresses EnerNOC's interests and concerns in this regard in an acceptable manner.

Q.8 Specifically, what aspects of Article VII does EnerNOC support?

Section 7.1 of the Settlement Agreement provides that TEP will implement an EERP ("Plan" within the context of the Settlement Agreement) of the nature proposed by the Commission's Staff in its previously filed prepared Direct Testimony. The Plan is intended to treat EE investments on a basis similar to typical supply resource investments in that it allows TEP to amortize the cost of its annual EE investments over a 5-year period and to earn a reasonable rate of return on those investments. This section also requires that TEP invest in demonstrably cost-effective, and efficient, Commission-approved EE programs. This means that TEP can recover its investments subject to a demonstration of effectiveness and only for those programs that have been found to be cost-effective and approved by the Commission. Therefore, the Commission, and all stakeholders, can participate in a process to provide regulatory oversight of EE programs to ensure these programs are providing the expected benefits, in excess of costs, to the system and to ratepayers.

Section 7.3 provides that, beginning March 1, 2013, TEP will resume funding EE programs previously approved by the Commission; and, TEP will request recovery of program costs so funded through the Plan. This provision is of particular importance to EnerNOC and its ability to support the Settlement Agreement. The DLC Program was previously approved by the Commission on July, 2010 in Decision No. 71787, in which the Commission discussed both the DLC Program and EnerNOC's related contract with TEP. Against that background, and the express language of Section 7.3, EnerNOC is optimistic that the DLC Program will be among those EE programs on which TEP will resume funding beginning March 1, 2013.

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With reference to Section 7.4, EnerNOC understands that, as to programs previously approved by the Commission for which TEP has resumed funding beginning on March 1, 2013, pursuant to Section 7.3, such resumed funding would not be disrupted or terminated by reason of the language of Section 7.4. Rather, that language addresses TEP's funding obligation post-July 1, 2013, but does not interfere with the funding it has resumed on March 1, 2013 through June 30, 2013, assuming Commission approval of the EERP.

Section 7.5 addresses the disposition of Docket No. E-01933A-11-0055, which involves TEP's proposed 2011-2012 EE Implementation Plan, upon which a decision by the Commission has yet to be rendered. EnerNOC has been an active intervenor in that proceeding. Section 7.5 provides that TEP will file a request with the Commission to close that docket, upon the effective date of rates approved by the Commission in this proceeding, and Commission approval of the EERP. In such event(s), and assuming TEP's interim performance pursuant to Section 7.3, EnerNOC will file an appropriate pleading in support of TEP's request that Docket No. E-01933A-11-0055 be closed.

Finally, with reference to Section 7.7, this section provides that TEP will conduct the Plan pursuant to the Plan of Administration ("POA") set forth in Attachment "D" to the Settlement Agreement. EnerNOC has reviewed Attachment "D," and discussed several of the funding assumptions reflected in the POA with TEP personnel responsible for the administration of its EE programs on January 28, 2013. Based upon our review and that discussion, EnerNOC is supportive of the proposed POA.

Q.9 What about Sections 7.2, 7.6, 7.8 and 7.9 of Article VII?

A.9 Section 7.2 specifies an amortization plan of five (5) years will be used for EE investments made under the Plan, which EnerNOC supports. Section 7.6 provides a process for certain customers to petition the Commission for exemption from the DSM adjustor approved for TEP, if such customers can satisfy the requirements of Section 7.6. Section 7.8 addresses the manner in which the DSM surcharge is to be assessed and expressed as between residential and non-residential customers, upon adoption of the Plan. None of these provisions are applicable to EnerNOC; and, EnerNOC has no objection to any of them.

Section 7.9 is intended by the signatory parties to make clear that their agreement to and support of the Plan is not intended to intrude upon the Commission's policy prerogatives or standards with respect to EE.

Q.10 Is the Settlement Agreement, and the capitalization proposal for EE programs, consistent with the Commission's EE Rules? If so, please Explain.

A.10 Yes. Section 14-2-2410.I. of the EE rules states that "The Commission will review and address financial disincentives, recovery of fixed costs and recovery of net lost income/revenue due to Commission-approved DSM programs if requested to do so by the affected utility in its rate case

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and the affected utility provides documentation/records supporting its request in the rate application."

Does the capitalization approach contemplated in Article VII of the **Q.11** Settlement Agreement remove TEP's investments in EE programs from Commission oversight?

No. There are still several opportunities for Commission oversight and approval or disapproval of TEP's investments and cost recovery under the Settlement Agreement. For example, pursuant to Article 7.1, TEP will invest in cost-effective and Commission-approved programs. Secondly, TEP will only receive cost recovery for those investments upon a demonstration that the programs have achieved a minimum kWh savings that is at, or below, the maximum cost per kWh. In that regard, TEP will file annual implementation plans on June 1 of each year, wherein any new program proposals will be submitted and examined by the Commission. Additionally, TEP will file annually, beginning on March 1, 2014, for its Demand-Side Management Surcharge (DSMS) reset, to be implemented beginning on June 1 of each year following Commission review. Further, TEP will provide annual and mid-term progress reports to Commission Staff on March and September, respectively, of each year. Thus, there are a number of ways through which the Commission would continue to retain meaningful regulatory oversight with respect to TEP's EE programs."²

In addition to the foregoing discussion of the various provisions of Article VII of the Settlement Agreement and EERP, and the reasons why EnerNOC supports and recommends Commission approval of the same, Ms. Tierney-Lloyd also discussed the important role which EE programs can perform within the context of the Integrated Planning Resource process for TEP:

"Q.12 Are these EE resource investments necessary?

Yes. In TEP's 2012 Integrated Resource Plan (IRP), they project that they will have approximately 500 MW of energy efficiency and demand response to meet coincident peak demand by 2026.[3] That amount will accrue over time only with continuous development and investment. Further, without that 500 MW of capacity from demand response (DR) and EE resources, TEP would have to invest in some other resources to make up the difference. Given the passage of time between now and 2026, and potential restraints on the use of resources other than DR and EE, the ongoing role of DR and EE resources would appear quite

² See Exhibit EnerNOC-2 at page 2, line 9-page 7, line 6.

³ TEP's 2012 Integrated Resource Plan at pages 30-32.

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In that regard, these "potential restraints" conceivably include (i) a carbon tax, (ii) air pollution control regulations of a stringency which makes compliance on aging coal-fired plants economically infeasible, and/or (iii) the demand on scarce water resources in an arid region imposed by coal-fired steam electric plants. Given the significant role that coal-fired generation currently occupies in TEP's generation resource portfolio, DR and EE represent an important option for responding to the demands of the future.

EnerNOC's Position on the "EE Rule Option" Alternative Discussed in TEP's C. Prepared Direct Testimony In Support of Settlement Agreement

In its February 15, 2013 prepared Direct Testimony In Support of Settlement Agreement, TEP witness David G. Hutchens described an alternative mechanism for Commission review and approval of EE programs, and the means by which such programs would be funded.⁵ This option was presented by TEP for consideration by the Commission, in the event that the Commission was not inclined to adopt EERP #2 as a part of the Settlement Agreement.

In her February 15, 2013 prepared Direct Testimony In Support of Settlement Agreement, which was filed contemporaneously with the aforesaid prepared testimony of Mr. Hutchens, EnerNOC addressed the possibility of such an alternative option outside of the Settlement Agreement being filed, as follows:

"Q.15 If the Commission determines that the EERP6 is not appropriate, and instead favors an expense mechanism, what would EnerNOC's position be?

As previously discussed, EnerNOC supports the Settlement Agreement A.15 and Section 7 Plan approach. However, as acknowledged in Section 7.9 of the Settlement Agreement, the Commission can make any determination it chooses with respect to the EE portion (Article VII) of the Settlement Agreement. In the event of disapproval or a modification,

⁴ See Exhibit EnerNOC-2 at page 7, lines 8-17.

⁵ See Exhibit TEP-2 at page 17, line 10-page 21, line 10.

⁶ As used herein, "EERP" refers to <u>EERP #2</u>.

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EnerNOC would need to analyze the Commission's decision, and consistent with Articles XXI and XXII of the Settlement Agreement, determine its position and how to proceed.

However, it is our understanding that in its Testimony in Support of Settlement, TEP will be proposing a comparison option under the existing EE Rules for the Commission to consider in the event that it determines not to approve the EERP. Nonetheless, EnerNOC believes that if the EERP is not adopted, the Commission should consider moving expeditiously to resume funding TEP's cost-effective. Commissionapproved EE programs for its customers (consistent with other utilities in the State like APS). It has been nearly a year since TEP's EE programs have been suspended, pending resolution of their funding requests."7 [emphasis added]

III. **DISCUSSION OF GENERAL REASONS** WHY ENERNOC SUPPORTS SETTLEMENT AGREEMENT

In addition to the reasons specific to EnerNOC discussed in Section II above, EnerNOC also supports the Settlement Agreement for several general reasons, which EnerNOC believes are applicable to all parties of record in the Instant Proceeding. These reasons include (i) Sections 1.3, 1.4 and 1.5 as set forth in Article I (Recitals), (ii) Sections 21.4 and 21.5 of Article XXI (Commission Evaluation of Proposed Settlement) and (iii) Sections 22.1 through 22.6 of Article XXII (Miscellaneous Provisions). In addition, and subject to Commission adoption of the Settlement Agreement without "material change," the Settlement Agreement allows for a timely conclusion of the Instant Proceeding without protracted litigation and the added consumption of time and costs attendant thereto.

IV. CONCLUSION

Accordingly, and pursuant to Section 1.6 of the Settlement Agreement, EnerNOC respectfully requests the Commission (1) to find that the terms and conditions of the Settlement Agreement are just and reasonable and in the public interest, along with any and all other necessary or appropriate findings, and (2) to approve the Settlement Agreement such that it and

See Exhibit EnerNOC-2 at page 11, lines 1-17.

the rates contained therein may become effective on July 1, 2013. Dated this 21st day of March 2013. The original and thirteen (13) copies of the foregoing will be filed this 21st day of March 2013 with: **Docket Control Division** Arizona Corporation Commission 1200 West Washington Street Phoenix, Arizona 85007 A copy of the same served by e-mail or first class mail that same date to: All Parties of Record

Respectfully submitted, Laurence V. Robotrau, Ju

Lawrence V. Robertson, Jr. Attorney for EnerNOC, Inc.